

FDIC State Profile

Fall 2005

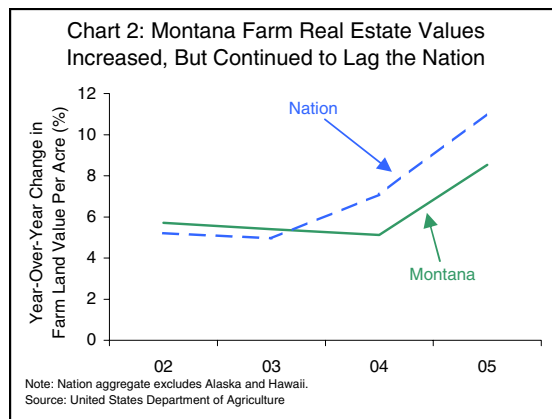
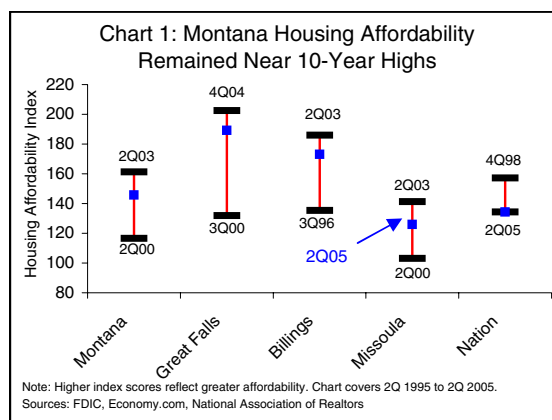
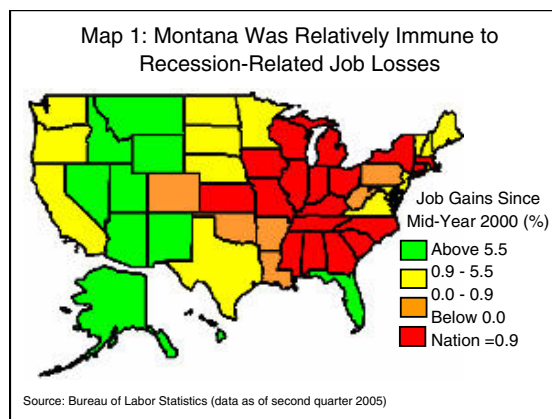
Montana

Employment conditions in Montana may be deteriorating.

- Montana was one of only five states in the nation that did not lose jobs on net during the 2001 recession, in large part because of robust job gains in its important government and construction sectors (see Map 1). However, job growth began to drop in first quarter 2005 and slipped below the nation during the second quarter. In particular, the construction and leisure sectors experienced sharp declines in growth, and the government sector reported net job losses. However, high energy prices continued to generate some job gains in the mining sector.
- Forecasts anticipate continued deceleration in the leisure and construction sectors because of higher energy prices and interest rates during the rest of 2005 and 2006. As a result, overall job growth may continue to lag the nation.¹
- Recent hurricanes likely will have indirect implications for the state economy. Post-hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have adverse effects on consumer demand, including tourism.

Home prices increased moderately and housing remained affordable, but construction risks increased.

- Second quarter home prices rose over 12 percent on an annual basis in Montana, slightly below the national average.² Second quarter housing affordability hovered close to 10-year highs and remained above the national average in Montana and in most major cities in the state, except **Missoula** (see Chart 1).³
- In first half 2005, residential mortgage activity in the state of Montana was characterized by active levels of investor participation, even among non-prime borrowers. For example, more than 25 percent of Alt-A (low documentation) Montana mortgages were to investors or



¹Forecast source is Economy.com.

²Based on Office of Federal Housing Enterprise Oversight data.

³Based on Economy.com and National Association of Realtors data.

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second home purchasers, just above the national average of more than 24 percent.⁴

- During the year ending second quarter, construction and development loans grew over 44 percent and home equity lines of credit increased 39 percent among Montana-based institutions, the seventh and second highest growth rates in the nation, respectively, for these loan types.

Farm land values edged up, but lagged the nation.

- Montana farm land values continued to improve in 2005 in response to low interest rates, favorable product returns, and increased demand for nonagricultural uses. However, Montana land values per acre were low relative to the rest of the nation, in part because of the large volume of pasture and rangeland. Also, demand for agricultural land for alternate uses was among the lowest in the nation. An exception was the northwest region of the state, near **Flathead** and Missoula counties, where population growth has been strong (see Chart 2).

Bankruptcy filings are on the radar.

- Second quarter personal bankruptcy filings in Montana increased 7 percent year-over-year because of pending bankruptcy law changes. Filings were comparable to the nation on a per capita basis but significantly exceeded pre-recession levels (see Chart 3).
- Consumer loan delinquencies at institutions in the state were near historic lows. However, should interest rates rise or energy prices remain elevated, institutions could see an uptick in consumer delinquencies.

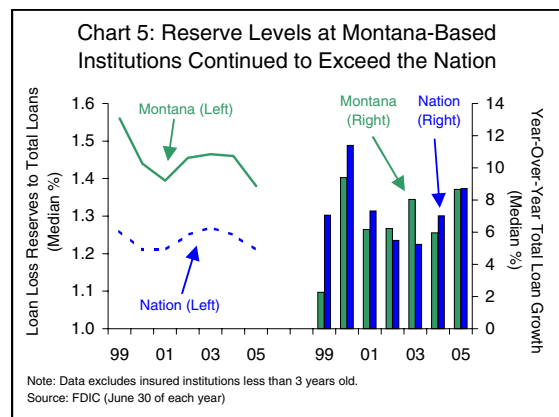
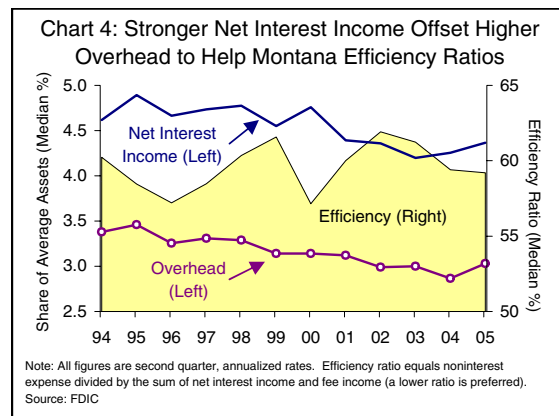
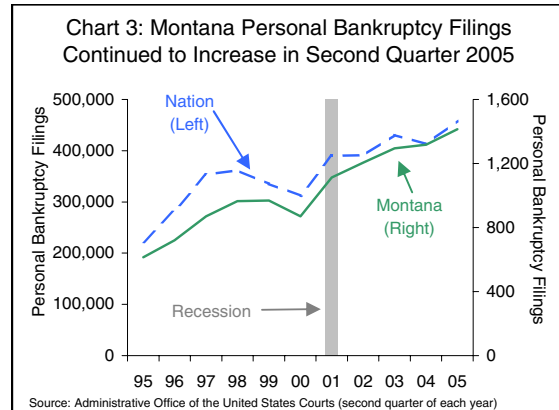
Although insured institution profitability improved, efficiency ratios were flat.

- Widening margins significantly boosted second quarter pre-tax earnings among Montana-based institutions. Profits increased despite rising overhead costs and lower gains on securities sales.
- Efficiency ratios (the share of net operating revenues absorbed by overhead expenses) were fifth best in the nation because of the low cost of doing business in the state. However, efficiency ratios were relatively flat year-over-year because overhead increases offset net interest margin gains (see Chart 4).⁵

Delinquencies improved but remain high.

- Although asset quality improved as of second quarter 2005, Montana-based insured institutions reported the fourth highest delinquency rate in the nation.

- Past-due loans are centered in the commercial and industrial portfolios, primarily among institutions based in North-Central and Southeast Montana.⁶
- Although loan loss reserves relative to total loans decreased year-over-year, reserve coverage of more severely delinquent loans improved (see Chart 5).



⁴Based on LoanPerformance data.

⁵The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income.

⁶North-Central Montana (14 counties) includes the Great Falls market. Southeast Montana (28 counties) includes the Billings area.

Montana at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	2.5%	3.0%	2.8%	1.2%
Manufacturing (5%)	2.1%	1.1%	0.0%	0.7%	-5.2%
Other (non-manufacturing) Goods-Producing (8%)	3.4%	11.7%	9.1%	9.7%	5.1%
Private Service-Producing (66%)	1.7%	2.3%	3.1%	2.7%	1.3%
Government (21%)	-0.1%	0.3%	1.5%	1.3%	1.2%
Unemployment Rate (% of labor force)	4.4	4.5	4.4	4.4	4.4

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	7.7%	7.5%	7.9%	6.4%	5.5%
Single-Family Home Permits	80.8%	85.0%	-4.6%	4.0%	11.4%
Multifamily Building Permits	-42.2%	47.0%	19.2%	20.3%	-17.9%
Existing Home Sales	13.9%	-8.9%	-2.9%	4.3%	2.7%
Home Price Index	12.9%	11.4%	9.8%	10.5%	6.5%
Bankruptcy Filings per 1000 people (quarterly annualized level)	6.19	4.72	5.85	4.68	4.49

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	82	80	80	80	80
Total Assets (in millions)	15,091	14,679	14,051	14,644	13,534
New Institutions (# < 3 years)	4	2	2	2	4
Subchapter S Institutions	25	24	24	24	23

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.99	2.53	2.18	2.19	2.26
ALLL/Total Loans (median %)	1.32	1.39	1.43	1.39	1.46
ALLL/Noncurrent Loans (median multiple)	1.81	1.45	1.42	1.57	1.37
Net Loan Losses / Total Loans (median %)	0.01	0.02	0.05	0.09	0.11

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.65	9.42	9.33	9.15	9.16
Return on Assets (median %)	1.36	1.24	1.38	1.23	1.24
Pretax Return on Assets (median %)	1.97	1.84	1.84	1.80	1.69
Net Interest Margin (median %)	4.78	4.55	4.58	4.63	4.57
Yield on Earning Assets (median %)	6.34	6.03	6.03	6.05	6.19
Cost of Funding Earning Assets (median %)	1.56	1.41	1.25	1.27	1.54
Provisions to Avg. Assets (median %)	0.11	0.12	0.10	0.13	0.18
Noninterest Income to Avg. Assets (median %)	0.60	0.63	0.74	0.69	0.74
Overhead to Avg. Assets (median %)	3.03	2.93	2.87	2.91	2.98

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	70.3	67.3	68.2	65.7	61.3
Noncore Funding to Assets (median %)	17.7	15.1	15.6	14.4	14.0
Long-term Assets to Assets (median %, call filers)	14.3	14.5	17.6	14.5	16.1
Brokered Deposits (number of institutions)	23	17	13	15	10
Brokered Deposits to Assets (median % for those above)	3.8	3.9	4.5	3.8	5.6

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	107.5	116.2	119.7	116.6	112.6
Commercial Real Estate	166.0	169.3	161.0	169.6	146.2
<i>Construction & Development</i>	34.2	35.6	28.2	28.1	18.7
<i>Multifamily Residential Real Estate</i>	1.2	2.0	1.4	1.4	1.2
<i>Nonresidential Real Estate</i>	105.4	116.2	128.0	128.3	121.5
Residential Real Estate	108.2	113.4	103.1	112.3	91.9
Consumer	50.6	51.8	54.6	52.6	55.3
Agriculture	101.1	87.7	105.1	91.7	97.4

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Billings, MT	12	1,919	< \$250 million	68 (82.9%)
Missoula, MT	12	1,242	\$250 million to \$1 billion	12 (14.6%)
Great Falls, MT	10	885	\$1 billion to \$10 billion	2 (2.4%)
			> \$10 billion	0 (0%)